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FM AIT TAIPEI  
TO RUEHC/SECSTATE WASHDC 1768  
RUEATRS/DEPT OF TREASURY WASHDC  
INFO RUCPDOC/USDOC WASHDC  
RUEHBK/AMEMBASSY BANGKOK 3386  
RUEHBJ/AMEMBASSY BEIJING 5563  
RUEHUL/AMEMBASSY SEOUL 8030  
RUEHGP/AMEMBASSY SINGAPORE 6585  
RUEHKO/AMEMBASSY TOKYO 7952  
RUEHML/AMEMBASSY MANILA 9784  
RUEHJA/AMEMBASSY JAKARTA 3912  
RUEHKL/AMEMBASSY KUALA LUMPUR 3549  
RUEHHI/AMEMBASSY HANOI 3118  
RUEHBY/AMEMBASSY CANBERRA 4295  
RUEHWL/AMEMBASSY WELLINGTON 1546  
RUEHHK/AMCONSUL HONG KONG 6777  
RUEHGH/AMCONSUL SHANGHAI 0325  
RUEHGZ/AMCONSUL GUANGZHOU 9504

UNCLAS TAIPEI 002911

SIPDIS

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STATE PLEASE PASS USTR

STATE FOR EAP/RSP/TC, EAP/EP

USTR FOR ALTBACH

USDOC FOR 3132/USFCS/OIO/EAP/WZARIT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY PLEASE PASS TO OCC/AMCMAHON  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: EINV EFIN ECON PINR TW

SUBJECT: Dump Bian Campaign Impacts Markets

¶1. Summary. Financial analysts view the campaign to force President Chen Shui-bian to resign as a primary cause of the August 22 stock index plunge of 3.2% in the Taiwan stock index. Local institutional investors who are more concerned over political unrest than their foreign counterparts sold stocks, while foreign portfolio investors registered net stock purchases, viewing the drop as temporary and a good buying opportunity. End Summary.

Campaign to Overthrow President Chen

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¶2. Former DPP Party Chairman Shih Ming-te is leading a campaign to force President Chen Shui-bian to resign. Shih will organize a large-scale sit-in in front of the Presidential Office which may prevent the President's office from normal functioning. This campaign, together with the PRC (Taiwan's main trading partner) unexpectedly raising interest rates by 0.27 percentage points on August 18, roiled Taiwan's financial markets on August 21, a Senior Market Analyst at Merrill Lynch told AIT.

Stock Market Plunges

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¶3. The Analyst explained that local portfolio investors' fear that demonstrations may lead to violent political unrest prompted Taiwan's stock price index to plunge 3.2% to close August 21 at 6,420.01 points. The share prices of 92% of the 1,164 listed companies declined. Seventy-two companies saw their share prices hit the daily limit of 7% decline. The 3.2% fall in Taiwan's share price index, the fourth deepest drop so far this year in Taiwan, was far more than the stock price declines of other Asian markets (1.86%

in Hong Kong, 0.85% in Tokyo, 0.71% in Seoul, and 0.65% in Singapore).

NTD Depreciates against USD

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¶4. The NTD depreciated 0.07% to close August 21 at NT\$32.69 per USD, against the trend of other currencies in East Asia which gained strength against the USD. The Japanese Yen appreciated 0.5% and the Korean Won and the Singaporean Dollar appreciated 0.2%. The Hong Kong Dollar depreciated 0.01% against the USD.

Foreign Investors See Unrest as Buying Opportunity

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¶5. On August 21, local institutional investors who are more sensitive to political unrest than foreign investors sold NT\$3.55 billion (US\$109 million) more stocks than they bought. In contrast, foreign portfolio investors made net stock purchases of NT\$1.88 billion (US\$57.8 million), sending their net stock purchases so far in August to NT\$45.9 billion (US\$1.4 billion). Stock market analysts of Morgan Stanley, Citibank, and Chase believe that the financial impact of the campaign against the President will be short-lived and that excess liquidity will eventually drive stock prices up again. A Citibank email of August 22 advised "we believe political turmoil and angry mobs are a Buy indicator in Taiwan." However, the Merrill Lynch analyst predicted further declines, perhaps down to 6300, may be in store in the run-up to the December mayoral elections in Taipei and Kaohsiung. Most analysts believe that Taiwan's stock prices will rebound in the next few days. (The stock price index rose 84 points to close August 22 6,590 points.)

YOUNG